

VZCZCXRO6385
RR RUEHCHI RUEHDT RUEHHM
DE RUEHJA #1672/01 1661054
ZNR UUUUU ZZH
R 151054Z JUN 07
FM AMEMBASSY JAKARTA
TO RUEHC/SECSTATE WASHDC 5129
INFO RUEHZS/ASSOCIATION OF SOUTHEAST ASIAN NATIONS
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUEHKO/AMEMBASSY TOKYO 0548
RUEHBJ/AMEMBASSY BEIJING 4120
RUEHBY/AMEMBASSY CANBERRA 0830
RUEHUL/AMEMBASSY SEOUL 4072
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UNCLAS SECTION 01 OF 06 JAKARTA 001672

SIPDIS

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DEPT FOR EAP/MTS AND EB/IFD/ODF
TREASURY FOR TFCA - BERG
DEPARTMENT FOR OES/IET and OES/ETC

E.O. 12598: N/A

TAGS: [SENV](#) [EAID](#) [ECON](#) [TBIO](#) [ENRG](#) [ID](#)

SUBJECT: WEST KALIMANTAN - DWINDLING FORESTS AND
INFRASTRUCTURE CHALLENGES

REF: 05 JAKARTA 11316

1. (SBU) Summary: West Kalimantan's abundant forest and fresh water resources are under threat from logging and plantation companies, though the government has recently cracked down on some illegal loggers. The majority of tribal peoples in the province rely on forest resources for a livelihood, including fresh water fish from the largest lake ecosystem in Southeast Asia and the country's longest river, the Kapuas. Land clearing by burning continues to choke the region with haze during dry season, making the Pontianak airport unusable and destroying the rich peat of coastal areas, important for water conservation. The province has low education and human development levels, inadequate health care, and poor infrastructure. Severe electricity shortages mean constant rolling blackouts, while costly diesel generators keep the lights on. West Kalimantan officials and non-governmental organizations (NGOs) are seeking to diversify the province away from logging into more sustainable growth areas, but lack funding to compete with the \$7 billion plantation and logging businesses. Cross-border smuggling of endangered species continues, but international and local NGOs are providing direct assistance for flora and fauna conservation, as well as educating local people to protect forest resources. Eco-tourism is just getting started but faces infrastructure challenges. Provincial officials and NGOs are enthusiastic about the Heart of Borneo initiative, but forest-dwelling ethnic groups want compensation for conservation. Donors have already provided a great deal of assistance, but additional community development and conservation programs are needed to sustain what remains of the province's dwindling forest resources. End Summary.

Profile of a Province

2. (U) West Kalimantan's has population of 4.2 million occupying 146,000 square kilometers, Indonesia's fourth most sparsely populated province. It is home to several ethnic groups described collectively as Dayaks, 95% of whom live in and around forested areas and national parks, relying mainly on forest resources for their livelihood. The Santarum Lakes are the largest fresh water lake ecosystem in Southeast Asia, over 100,000 hectares in rainy season, connecting to several huge rivers. The Kapuas is the largest river in Indonesia (1,143 km) and important

transportation waterway. The province's important water resources are under threat from logging and plantation activities. West Kalimantan is relatively poor, and its per capita income rose above \$1,000 in 2006 for the first time since the financial crisis.

Forest Resources Dwindling

13. (SBU) In 2003-04, Indonesia had the highest rate of deforestation in the world at 2.5 million hectares per year. One recent media report described Indonesia as "losing a soccer field of forest every minute." West Kalimantan's is an example of this: its rich forests have been much diminished in the past two decades. Much of the 9.4 million hectares of forest are heavily degraded or gone and logging concessions have claim to nearly a third of it. A USAID contractor and expert on Kalimantan forest issues told us that labeling forest as "protected" or "conservation" mean very little in practice. For example, of the "Nature Reserve" forest classification, only 68,681 of 259,585 hectares or 26% are actually primary forest. The rest is secondary forest, degraded or deforested. "A label does not bring any protection. It is how it is managed that is important. In some cases, so-called 'protected' forests are losing trees more rapidly than non-protected areas." The stunning rainforest of Betung Kerihun National Park is 800,000 hectares, but its buffer zone is reportedly under threat from a logging concession, according to the World Wildlife Federation (WWF).

Table 1: West Kalimantan Logging Concessions

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Logging (HPH) (1)	1.5 million hectares
Industrial (HTI) (2)	1.6 million

TOTAL	3.1 million hectares

(1) HPH is a concession for selective logging of primary forest.

(2) HTI is a concession for planting and harvesting industrial timber. HTI can be clear cut if replanted.

Jobs Disappear with the Trees

14. (U) Over the past two years, provincial GDP growth rates have lagged significantly behind Indonesia's national GDP growth rates, due largely to a decline in the forestry sector. Forestry as a percentage of provincial growth has declined considerably, from 5.2% in 2002 to 1.5% in 2006. Bank Indonesia (BI) and other officials we spoke with attribute this to the loss of forest resources as well as the government crackdown on illegal logging. An estimated 25-30,000 jobs in sawmills were lost in 2006. "One sawmill collapse cost 18,000 jobs," Pontianak Mayor Buchari Arrahman told us. Services, trade and retail jobs have replaced some of these jobs, but unemployment remains about 7%, lower than Indonesia's national average. As forestry declines, plantations are gradually contributing more to growth, increasing from 7.9% in 2002 to 8.9% in 2006.

Legacy of Bad Policies and Enforcement Challenges

15. (SBU) Officials from the regional Ministry of Forestry office (BKSDA) told us that bad policies going back to the early 1990s contributed to the loss of a great deal of forest, including precious hardwoods. Some were replanted with faster-growing eucalyptus. Illegal mining, including

illegal gold mining with mercury, also did a lot of damage to the ecosystems. The provincial authorities are in charge of policing the protected forest areas, but the central government is in charge of the national park areas. Just in Betung Kerihun National Park alone, 30,000 cubic meters of wood has been taken illegally to Malaysia. The forested areas are just too big for guarding, we were told. Small ports are used for exporting tropical hardwood and buyers are everywhere: in Europe, Asia and North America. "Some of the companies get a stamp in Malaysia, showing it is Malaysian hardwood, when in fact it came from Indonesia," one official told us. The Indonesian armed forces (TNI) is helping to stop illegal trade, but only at formal border crossings.

16. (SBU) The HPH logging concession permits were at the regency (kabupaten) level after the 1997-98 crisis, but were badly managed in a chaotic land grab. The Ministry of Forestry in 2001 removed the regencies authority over concessions and cancelled many logging permits in 2002. Regencies can still propose them, but the Ministry of Forestry has the final approval authority. Professor Heruyono Adimasputro, a professor of Agriculture and Forestry at the University of Tanjungpura noted that of the three levels of forest -- low, middle and high - the lowland forest of the province is mostly gone. (Note: The lowland and peat swamp forests include some of the most important biodiversity and habitat for orangutans and other wildlife.) After the Ministry of Forestry cancelled logging concessions in 2002, Adimasputro told us, no one was monitoring the situation. "Outsiders came in and logged illegally, but enforcement is better now," he noted. A USAID forestry expert concurred, telling us, "I am aware of no successful moratorium on logging in Southeast Asia. It generally brings more problems." Adimasputro also believes that 75% of the money from illegal logging ends up in Jakarta. "All that new property construction in Jakarta is paid for by these forests," he said. Some of the Bupati or regency heads are also part of the problem. "They

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figure it is too late to conserve, so they might as well exploit what's left."

Cross-Border Smuggling

17. (SBU) Cross border smuggling of Indonesian forest resources into Malaysia's Sarawak state, which shares a long border with West Kalimantan, is also believed to be a major problem. Along with timber, rare species of birds, fish and mammals routinely disappear over the border into Malaysia. Indonesian officials complain that the Sarawak state government officials are involved in some of this smuggling. Commonly trafficked items include exotic birds, lizards, rare freshwater fish such as the arowana, and orangutans. Mr. Maraden Purba of the Conservation Office of BKSDA said that some orangutans are trafficked by sea to Thailand. "They give the males alcohol and then stage a fight for shows," he said. Some of the timber and animals are transported by river and therefore harder to intercept. "Everyone is paid off. It's a problem of money," lamented one official. Professor Adimasputro confirmed: "If people are paid to conserve and replant, they will go for it. They are looking for income. They no longer want to live on plantation products. Everyone wants a cell phone, a motorcycle, a television." WWF agreed, "Alternative livelihoods are crucial: there are not enough police or authorities to stop the trade in rare species," they told us.

Flora and Fauna Conservation Efforts

18. (U) The World Wildlife Foundation (WWF) and other conservation NGOs are working with local authorities and

forest-dwelling people on a variety of projects to assist conservation. Professor Adimasputro said the same thing noting, "In the United States, national parks only have plants and animals living in them. Here, nature reserves are for animals but national parks sustain the livelihoods of several ethnic groups." WWF programs include: community-based development; habitat management; education and awareness campaigns. Conservation officer at BKSDA Maraden Purba emphasized that the most important thing for conservation is to get local people inside and in the buffer zones of forests empowered and working together.

19. (U) WWF works with seven forest-dwelling ethnic groups to conduct awareness campaigns about conservation via "mobile cinema," teach methods of organic farming and alternative job creation. There are considerable disputes over fish resources. Local people have been using small gauge nets, which are not allowing fish to get to reproductive age. Outsiders are coming in using poison or electric shock to kill fish which the locals rely on. WWF has worked closely with local government officials to help mediate these disputes. WWF is also facilitating replanting projects in many areas which are in most danger of erosion and degradation from logging activities. WWF also runs education campaigns about endangered species. "Some people just don't know," Hermayanti Putera of WWF's West Kalimantan Program told us. "One sawmill owner had three baby orangutans, but handed them over when we informed him it was an endangered species." It also works with tribal peoples to reduce killing and trafficking of endangered birds including the ceremonially important hornbill. Project managers from another NGO we met with, the Riak Bumi Foundation (Yayasan) said they were helping local people to market wild honey from the rainforest, paying a traditional group of honey hunters. They plan to team up with another NGO to create forest patrols with 90 local people, starting in 2008.

Haze: Annual Environmental Disaster

10. (SBU) Regarding the annual problem of haze, heavy pollution from the burning of forest and peat to clear land for farming every dry season, BKSDA officials showed us a map indicating most of the coastal area north and south of

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the provincial capital of Pontianak consists of peat. Roads outside the capital are in poor condition. "It is hard to get the fire fighting equipment in," one official told us. Burning is also the cheapest land clearing method. Professor Heruyono Adimasputro noted that the peat is 15 meters deep in some areas and is crucial for water conservation and management. "Once the peat is gone," he said, "we'll have terrible flooding in Pontianak and other coastal areas." The province has 16 fire fighting units with 240 trained personnel, which are also helping to conduct public awareness campaigns. (Note: The USG, Asian Development Bank and other donors have provided extensive training, technical assistance and other aid for fire prevention and response to Indonesia for over a decade, much of which has not been utilized or consistently implemented.)

Heart of Borneo

11. (U) We discovered a lot of enthusiasm for the "Heart of Borneo (HOB)" initiative during our trip. "Progress and interest is faster than we expected," Hermayanti told us. WWF had an HOB display for a festival at the provincial museum in Pontianak. Local officials said they hoped it would bring more attention and resources to the conservation efforts in the area. The head of BAPEDA recognizes the importance of the program, and advised us that the local people want compensation for conservation.

"People from Kapuas regency come here and ask, 'where is the compensation?'" He hopes the central government and interested donors will help provide resources to local people to patrol the protected area and develop alternative sources of income. Members of the Riak Bumi NGO expressed concern about upcoming January 2008 elections for Governor. (The incumbent governor will end his term on January 13, 2008.) "We have not seen any of the five candidates make strong statements about conservation. Their policy on HOB is unclear. If the new Governor allows plantations north of Santarum Lakes, that ecosystem is finished and HOB will be irreparably damaged."

Severe Infrastructure Problems

¶12. (SBU) BAPEDA officials told us that the province's poor infrastructure was a severe impediment to human development and overall growth. Rasyid said that money from logging Kalimantan went to Jakarta and was not reinvested in the province. "Most timber companies have now collapsed, and we're left to clean up the damage," he complained. Erosion from illegal logging has silted up Pontianak harbor so the draft is only 5-6 meters: no ships larger than five-tons can enter. "We need at least one major international seaport with deep draft," Rasyid said. He noted that a Japanese businessman seeking to export the province's fast growing and remarkably refreshing aloe vera chinensis, had to send it through Tanjung Priok port near Jakarta, rather than from Pontianak. Since Pontianak airport often cannot be used during haze season (3-5 months), BAPEDA would like to construct an alternate airport at Bengkayang to the northeast, which would serve three regencies. (Comment: This would be treating the symptom and not the cause, and also provide procurement opportunities for GOI officials.)

¶13. (SBU) Rasyid noted that the province's long-term road network plan requires Rp 15 trillion (\$1.7 billion), but the central government's budget allocation (DAU) for the province through the Ministry of Public Works is only about Rp 1 trillion (\$110 million). BAPEDA complained that the province's tax revenue paid into the central government is not coming back to the province in a large enough budget allocation. BAPEDA official Memet Agustiar said, "The province cannot borrow for infrastructure. We hope to eventually issue sub-sovereign bonds." Agustiar said they were working with Nikko Securities in Japan to create an investment fund for the province. The mayor of Pontianak told us that the water supply was an urgent need. Illegal logging and burning of peat has also led to the contamination of the fresh water supply with brackish water

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in dry season. BPKP head Hari Setiyadi also told us that, "Nothing that PDAM (the state water authority) supplies is drinkable, and many areas get no water supply at all."

Constant State of Rolling Blackout

¶14. (U) BI officials told us that due to the province's poor infrastructure, prices for fuel and other goods in remote villages are much higher than in Pontianak. For example, a liter of premium gasoline costs Rp 4000 (\$0.44) a liter in Pontianak, but Rp 7,500 (\$0.83) in Putussibau, one of the eastern regencies. The price of electricity is much higher in West Kalimantan than on the Java-Bali grid. Installed capacity is only 200 MW and demand is much higher. "The province is in a constant state of rolling blackouts," BI told us. "Every building spends several thousand dollars on a generator. A medium-sized home can spend \$50 per month on diesel fuel." Pontianak is right on the equator, but despite the intense sunshine for twelve hours a day, there was not a solar panel to be seen anywhere. "There was no incentive to invest when diesel fuel was subsidized. Now maybe it will be time to think

about other energy sources," BAPEDA officials told us. The Mayor of Pontianak Buchari Arrahman also seeks solar energy investment. "We're an equator city. We need solar power and a laboratory to study the climate here."

Formidable Development Challenges, More Private Investment Needed

¶15. (U) BI and Planning Office (BAPEDA) officials told us that the education level and human development index for the province is still low. There are too few doctors: health care and clinics are inadequate especially at the village and district level. The university only started a medical school two years ago. The head of BAPEDA, Mr. H. Fathan A. Rasyid told us that, "Most doctors come from Java, stay for two years, then go back." There are too few teachers and many do not wish to work in remote areas. Many tribal peoples do not complete basic education. We asked businesses in the local Chamber of Commerce (KADIN) what KADIN was doing to attract investment. KADIN told us that most companies were interested in trade in agricultural products such as pepper, fruits, rubber and cocoa. The market is too small for many companies, KADIN members acknowledged. Malaysian companies take raw materials from the province and process them over the border. "We have rubber plantations but no manufacturers of rubber products," one member told us. On the positive side, the retail and services sectors are growing.

Ecotourism Just Getting Started

¶16. (U) The Deputy Bupati in Putussibau Yosef Alexander, WWF and others noted that lack of infrastructure was also impairing the development of ecotourism. Flight connections and ground transportation are unreliable. Facilities and equipment are poor. WWF is training some local people in water safety and rescue for potential future white-water rafting business, but getting the equipment is difficult, they noted. WWF is targeting international tourists and working with a travel agency in Germany. Part of the problem is that during Europe's prime vacation months in summer, Kalimantan is covered in choking haze. Still, local officials and NGOs, even churches, have been trying to develop home-stays and eco-lodges, handicrafts for sale to tourists, even a challenging cross-Borneo trek. Kapuas Hulu regency and WWF have also developed a website, www.kompakh.org, to offer tours and provide more information about the area.

Requests for Donor Assistance

¶17. (SBU) BKSDA, conservation officials and NGOs requested USG and donor assistance for the following. We have not

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vetted these requests with other donors to see what has already been planned or provided. It is also not clear how much budget assistance the West Kalimantan authorities have requested from the central government for these priorities.

A) Increased monitoring of cross-border timber transit;
Certification of wood for export and domestic markets;

B) Training of local people and authorities;

C) Water systems and watershed management;

D) Alternative employment for local people (i.e.
handicrafts instead of trafficking endangered species);

E) Equipment for combating peat and forest fires;

F) Compensation for conservation, perhaps via a carbon trading or other mechanism.

G) Assistance with Heart of Borneo conservation efforts.

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